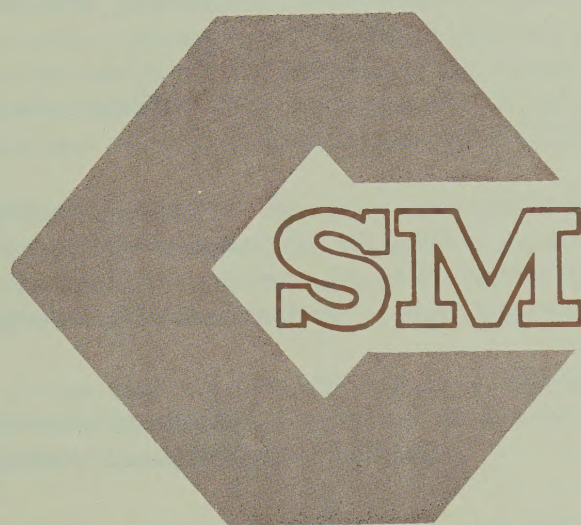


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CREAM SILVER MINES LTD.
[N.P.L.]

Annual Report 1971

CREAM SILVER MINES LTD. (N.P.L.)

Registered Office:	Ninth Floor, Credit Foncier Building 850 West Hastings Street Vancouver 1, B. C.
Transfer Agent :	Guaranty Trust Company of Canada
Consulting Engineers :	Agilis Exploration Services Ltd.
Board of Directors :	Frank A. Lang, President Richard W. Hughes, Vice-President Stanley K. Lothrop, Director Gardner S. Eldridge, Director
Capitalization :	Shares authorized : 3,000,000 Shares outstanding: 1,231,292
Auditor :	Morgan & Company, Chartered Accountants
Solicitors :	DuMoulin, Storrow & Black, Barristers & Solicitors
Stock Exchange :	Vancouver - Interim Listed

CREAM SILVER MINES LTD.

[N.P.L.]

ANNUAL REPORT TO SHAREHOLDERS

Your Board of Directors is pleased to present the 1971 Annual Report of your Company together with Financial Statements and Auditor's Report for the year ending March 31, 1971.

The past year was one of growing optimism for your Company's future and with an active exploration program ahead, and easier money, we trust that the coming year will show considerable improvement.

VANCOUVER ISLAND – BUTTLE LAKE PROPERTY

It was with a great deal of pleasure that we were able to report recently the successful negotiation of an exploration-option agreement with Western Mines Ltd., our neighbour to the northwest. This agreement, which was detailed in our recent news release, called for the minimum expenditure in this year of the sum of \$50,000.00 on exploration of our property, and the same amount before the end of next year, as well as a cash payment of \$10,000.00.

As the \$10,000.00 payment need not have been made until the end of this year, it is assuring to note that it has already been paid and that Western's plans are to proceed as quickly as possible into the second year program. Upon completion of the full \$815,000.00 expenditure, Western has the right to form an entirely new company in which they will be the major shareholder.

Your Company's management was particularly happy to complete this agreement with Western Mines Ltd. Although other agreements were offered, we felt this one to be the best in the long and short term interests of the Company and Shareholders.

Apart from the immediate monetary advantages, we were able to maintain Canadian ownership, which we felt was of importance at this location. We are now associated with a Company which has an operating mine, a strong financial position, good management and considerable geological expertise. The fact that they have an existing camp nearby means that fewer costs will be involved in the set-up of camp facilities and transportation. That they are most familiar with this kind of geology implies that unnecessary exploration expenses can be avoided. That they have a mill and concentrator nearby indicates that earlier production may be feasible, or that a smaller orebody may be economic. And additionally, they have agreed that not more than 7 % of the monies to be expended would be allocated to head office and administrative expenses. Hence the expenditure of a large sum of money here by Western Mines Ltd. could be most beneficial.

In an Addendum to the October 9, 1970 Geochemical Survey Report on this property, Agilis Exploration Services Ltd. recommended a two-stage exploration program summarized as follows:—

Upper Price Zone	\$ 41,250.00
Valley Zone	81,950.00
Price Zone-Western Mines	33,550.00
Drinkwater Zone	<u>76,450.00</u>
Total	\$233,200.00

There are therefore at least four zones to be explored by Western Mines Ltd., any one of which could be of major importance to us.

ANNUAL REPORT TO SHAREHOLDERS Cont'd.

A recent report from Western Mines Ltd. advised that they were moving a crew of men onto the property last week. Further news will be passed on as received.

YUKON – HART RIVER PROPERTY

While maintained in good standing, attention is being given to the proposed program of Hart River Mines Ltd. on their adjacent property, where diamond drilling is reported to be starting this month on a potential new zone. It would obviously be of great importance to us if they could increase their ore reserves sufficiently to justify production.

As an interesting aside to the above, your company recently became aware of proposed Territorial Land Use Regulations which would have made it completely prohibitive for us to complete our exploration work, and as far as we are concerned would have terminated our Yukon operations.

After correspondence with the Honourable Jean Chrétien, Minister of Indian Affairs and Northern Development, we are pleased to be advised that our discussions along with others resulted in substantial changes being made in the draft regulations, especially in the sections which we felt might be prohibitive insofar as mining exploration and development is concerned. As Mr. Chrétien points out, Land Use Regulations must ensure adequate protection to the environment, but of necessity must also prove workable. A copy of the revised and amended Regulations has been promised to us as soon as they are available and we propose to make further comments if we find them unsatisfactory for our purposes.

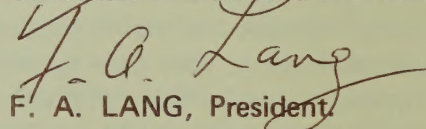
GENERAL

We have now received payment in full from Western Mines Ltd. of the sum of \$25,000.00 for the purchase of 50,000 shares at 50¢ each. Further financing via an underwriting is proposed for the near future thus providing a comfortable working capital and sufficient funds to pursue other opportunities as they arise.

A special note of thanks is offered to our Directors, Staff and Shareholders for their continued support. We look forward to a most active and interesting season.

Respectfully submitted,

On Behalf of the Board of Directors,


F. A. LANG, President

May 20, 1971.

CREAM SILVER MINES LTD.
(Non-Personal Liability)

FINANCIAL STATEMENTS

MARCH 31, 1971

AUDITORS' REPORT

The Shareholders
Cream Silver Mines Ltd.
(Non-Personal Liability)
Vancouver, Canada.

We have examined the balance sheet of Cream Silver Mines Ltd. (Non-Personal Liability) as at March 31, 1971 and the statements of deferred exploration and administrative expenditure and of source and application of funds for the year ended on that date. Our examination included a general review of the accounting procedures and such tests of accounting records and other supporting evidence as we considered necessary in the circumstances.

In our opinion these financial statements present fairly the financial position of the company as at March 31, 1971 and the results of its operations and the source and application of its funds for the year ended on that date in accordance with generally accepted accounting principles applied on a basis consistent with that of the preceding year.

"MORGAN & COMPANY"

Chartered Accountants

Vancouver, Canada
April 30, 1971.

C R E A M S I L V E R M I N E S L T D.

(Non-Personal Liability)

B A L A N C E S H E E T

MARCH 31, 1971

(with comparative figures for 1970)

A S S E T S

	<u>1971</u>	<u>1970</u>
Current assets :		
Cash	\$ 2,951.04	\$ 11,737.06
Sundry receivables	118.57	231.39
	<u>3,069.61</u>	<u>11,968.45</u>
 Investment in and advances to wholly owned subsidiary Company, Belmoral Mines Ltd. (Non-Personal Liability)		
Investment in 2 shares, at cost	.02	.02
Advances	1,294.33	1,249.33
	<u>1,294.35</u>	<u>1,249.35</u>
 Mineral claims :		
Vancouver Island (Note 1):		
Attributed value of 690,000 shares issued	86,250.00	86,250.00
Cash consideration	15,000.00	15,000.00
	<u>101,250.00</u>	<u>101,250.00</u>
 Yukon Territory (Note 2) :		
Attributed value of 10,000 shares issued	1,000.00	
Staking costs	4,168.59	4,168.59
	<u>5,168.59</u>	<u>4,168.59</u>
	106,418.59	105,418.59
Exploration and office equipment, at cost (Note 3)	<u>7,101.22</u>	<u>8,061.22</u>
Deferred exploration and administrative expenditure, per attached statement	<u>161,047.92</u>	<u>136,953.21</u>
Incorporation expense	<u>890.74</u>	<u>890.74</u>
	<u><u>\$279,822.43</u></u>	<u><u>\$264,541.56</u></u>

See accompanying Notes to Financial Statements

CREAM SILVER MINES LTD.
(Non-Personal Liability)

BALANCE SHEET

MARCH 31, 1971
(with comparative figures for 1970)

LIABILITIES and SHAREHOLDERS' EQUITY

	<u>1971</u>	<u>1970</u>
Current liabilities :		
Accounts payable	\$ 3,651.02	\$ 1,800.71
Due to directors, including accrued salaries	14,207.66	4,117.10
	<u>17,858.68</u>	<u>5,917.81</u>
 Shareholders' equity :		
Share capital :		
Authorized:		
3,000,000 shares of 50¢ par value per share		
Issued:		
700,000 shares for mineral claims (1970 —		
690,000 shares) (Note 4)	350,000.00	345,000.00
Less discount	<u>262,750.00</u>	<u>258,750.00</u>
	87,250.00	86,250.00
481,292 shares for cash	240,646.00	240,646.00
Less discount and commission	<u>68,272.25</u>	<u>68,272.25</u>
	172,373.75	172,373.75
<u>1,181,292</u> shares	<u>259,623.75</u>	<u>258,623.75</u>
 Contributed surplus :		
Proceeds from sale of donated shares (Note 5)	2,340.00	
	<u>261,963.75</u>	<u>258,623.75</u>
	 <u>\$279,822.43</u>	 <u>\$264,541.56</u>

Approved on Behalf of the Board :

"F. A. LANG" — Director

"R. W. HUGHES" — Director

CREAM SILVER MINES LTD.
(Non-Personal Liability)

STATEMENT of DEFERRED EXPLORATION and ADMINISTRATIVE EXPENDITURE
For the Year Ended March 31, 1971

	<u>Balances at beginning of year</u>	<u>Expenditures during year</u>	<u>Balances at end of year</u>
Exploration :			
Vancouver Island claims:			
Wages and benefits	\$ 35,545.25	\$ 8,903.72	\$ 44,448.97
Geophysical and geological surveys	7,398.89		7,398.89
Assays, recording fees and engineering	13,314.29	5,459.53	18,773.82
Travel and transportation	7,611.73	483.36	8,095.09
Sundry field expense	<u>9,072.02</u>	<u>1,813.94</u>	<u>10,885.96</u>
	72,942.18	16,660.55	89,602.73
Less option payment received (see note 1)	<u>—</u>	<u>8,000.00</u>	<u>8,000.00</u>
	<u>72,942.18</u>	<u>8,660.55</u>	<u>81,602.73</u>
Yukon claims :			
Wages and benefits	7,069.50		7,069.50
Assays, recording fees and engineering	11,909.14	317.50	12,226.64
Travel and transportation	7,092.21		7,092.21
Sundry field expense	<u>2,234.02</u>		<u>2,234.02</u>
	<u>28,304.87</u>	<u>317.50</u>	<u>28,622.37</u>
Total exploration	<u>101,247.05</u>	<u>8,978.05</u>	<u>110,225.10</u>
Administration :			
Salaries and benefits	13,374.84	7,800.00	21,174.84
Office rent and telephone, net	5,022.81	241.25	5,264.06
Printing and advertising	4,751.03	430.04	5,181.07
Legal and accounting fees and disbursements	9,061.04	2,758.84	11,819.88
Stock transfer expense	2,676.46	1,131.23	3,807.69
Stock exchange listing fee		2,000.00	2,000.00
Other	<u>3,982.25</u>	<u>929.79</u>	<u>4,912.04</u>
	38,868.43	15,291.15	54,159.58
Less interest earned	<u>3,162.27</u>	<u>174.49</u>	<u>3,336.76</u>
Total administration, net	<u>35,706.16</u>	<u>15,116.66</u>	<u>50,822.82</u>
Total deferred exploration and administrative expenditure per balance sheet	<u><u>\$136,953.21</u></u>	<u><u>\$ 24,094.71</u></u>	<u><u>\$161,047.92</u></u>

CREAM SILVER MINES LTD.
(Non-Personal Liability)

STATEMENT of SOURCE and APPLICATION of FUNDS
For the Year Ended March 31, 1971
(with comparative figures for 1970)

	<u>.1971</u>	<u>1970</u>
Source of funds :		
Option payment received in respect of agreement on the Vancouver Island claims	\$ 8,000.00	
Proceeds from the sale of donated shares	2,340.00	
Interest on term deposits	174.49	\$ 1,380.80
Refund of stock exchange listing fee		2,000.00
	<u>10,514.49</u>	<u>3,380.80</u>
Application of funds :		
Acquisition of mineral claims		150.00
Advanced to subsidiary company — Belmoral Mines Ltd. (Non-Personal Liability)	45.00	
Purchase of equipment		185.28
Exploration and administrative expenditure, per attached statement	23,134.71	28,059.43
Add interest on term deposits deducted	174.49	1,380.80
Add refund of stock exchange listing fee deducted		2,000.00
Add option payment received in respect of agreement on the Vancouver Island claims	8,000.00	
	<u>31,354.20</u>	<u>31,775.51</u>
Decrease in working capital	20,839.71	28,394.71
Working capital at beginning of year	6,050.64	34,445.35
Working capital (deficiency) at end of year	<u>\$(14,789.07)</u>	<u>\$ 6,050.64</u>
Represented by :		
Current assets	\$ 3,069.61	\$ 11,968.45
Current liabilities	<u>17,858.68</u>	<u>5,917.81</u>
	<u>\$(14,789.07)</u>	<u>\$ 6,050.64</u>

CREAM SILVER MINES LTD.
(Non-Personal Liability)

NOTES TO FINANCIAL STATEMENTS

MARCH 31, 1971

1. The Vancouver Island property consists of 180 claims including 42 claims staked during the year in the Alberni Mining Division of the Province of British Columbia. The claims are located within a class "B" park under the Park Act of that province and the company holds a Special Use Permit allowing it to prospect and carry out exploration on the claims.

Subsequent to the date of the balance sheet, an option agreement was signed with Western Mines Limited in respect of these claims. Under the agreement Western Mines Limited will have the option to incorporate a new company into which the claims will be transferred after having complied with the following:

1. To pay to Cream Silver Mines Ltd. \$40,000.00 cash of which \$10,000.00 is a firm commitment. \$8,000.00 had been received as of March 31, 1971 and \$2,000.00 has been received subsequently.
2. To expend a total of \$750,000.00 on the claims of which \$100,000.00 is a firm commitment.

Cream Silver Mines Ltd. will own 30 ⁰/₁₀₀ and Western Mines Limited will own 70 ⁰/₁₀₀ of the shares of the new company.

In addition Western Mines Limited has agreed to purchase 50,000 shares of Cream Silver Mines Ltd. at 50 ¢ each subject to and within seven days of approval of the agreement by the Vancouver Stock Exchange — such approval to be obtained before May 1, 1971.

2. The Yukon properties consist of 36 claims in the Mayo Mining Division. During the year the 15 claims in the Dawson Mining Division and another 17 of the original claims in the Mayo Mining Division were allowed to lapse and 11 new claims, of which 4 were allowed to lapse, were acquired from Belcarra Explorations Ltd. (N.P.L.) for the following consideration:
 1. 10,000 free shares of Cream Silver Mines Ltd. (N.P.L.)
 2. A royalty of 2 ¹/₂ ⁰/₁₀₀ to be paid out of net smelter returns from the production of these claims only — such royalty to be waived on receipt of \$250,000.00 cash in total or a 5 ⁰/₁₀₀ interest in the operating company.
3. No depreciation has been recorded on the company's equipment.

NOTES TO FINANCIAL STATEMENTS (Continued)

4. Of the 700,000 shares issued for mineral claims, 621,000 shares are held in escrow subject to release only with the consent of the British Columbia Securities Commission and the Vancouver Stock Exchange. During the year 10,000 shares were issued for mineral claims at 10 ¢ each (see note 2).
5. Out of 90,000 donated escrowed shares, held in trust for the benefit of the company, 9,000 shares, representing a 10 % release from escrow, were sold during the year for \$2,340.00. Of the remaining 81,000 shares, 50,000 shares were returned to the original donor, while 31,000 shares were transferred within escrow for services rendered.
6. During the year salaries were accrued in respect of two directors and senior officers (as defined in the Securities Act, 1967, of the Province of British Columbia) in the amount of \$10,695.00 for services rendered in their capacities as employees of the company. In addition one of the directors received 21,000 of the 31,000 escrowed shares referred to in note 5. No remuneration was paid to directors in their capacity as such.
7. The accounts of the wholly owned subsidiary, Belmoral Mines Ltd. (Non-Personal Liability), have not been consolidated as the subsidiary has no material assets or liabilities and has been inactive during the year.

